Methodological Problems of Formation of a New System of Regional Governance

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Abstract—The competitiveness of any social and production structure is provided by resources and efficient practices of their management. This article deals with the improvement in the management of regional development. The present process of establishing a new system of regional governance is going on in the absence of a clear understanding of the model of management. Thus, the earlier principles, which can be defined as “the state has no place in the economy” and “everyone is the architect of his or her own happiness” have not provided a breakthrough in the economy and have exacerbated social problems. These principles do not seem conclusive, and they were replaced by new ones, such as the principle of public–private partnership, principle of priority of investments in human capital and the strategic direction of the development of the economy (innovation projects, health care, and education).

The specificity of the control over a region is that economic and social processes in its territory are determined by governmental decisions at different levels—the government, enterprise, region, and the resident population. In the generalized form, the governance functions at the regional level can be defined as a system to ensure the effective use of its resource potential and competitive advantages in the interests of all parties involved in the support of its reproduction.

The basic directions in building a new system of regional management are the following:
— Improving planning and forecasting as a basis for management decisions;
— Budgetary planning oriented to results;
— Monitoring the implementation of planning and forecasting documents;
— Development of indicators to assess the effectiveness of management decisions.

The paper provides a critical analysis of the methods for the assessment of the efficiency of federal subjects’ executive bodies developed in accordance with the corresponding ordinance of the government.

Keywords: region, governance, regional reproduction process, coordination of regional and market interests, assessment of the efficiency of regional administration

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Deep transformations of Russia’s socioeconomic system have led to radical changes in social relations and now require a new system of governance for both economic and social spheres of the country. This process is going on in the absence of a clear idea about the state model, which finally has to be built. Time from time, the basic principles determining the critical elements of the administration mechanism are being changed. Thus, the original principles that can be formulated as “the state has no place in the economy” and “everyone is the architect of his or her own happiness” have failed to bring a breakthrough in the economy and exacerbated social problems. These principles are not considered to be absolutely true anymore; the principles of priority of investments in human capital and strategic directions of economic growth (innovation projects, health services, and education) have taken their place.

A.G. Granberg [1] is quite right saying that, compared to typical world practice, Russia’s peculiarities require the national government to be more proactive in matters of territorial development of the country and in the solution of problems associated with unjustified regional disparities. In a situation of more stable political and economic growth, as well as with a larger role of strategic priorities, the role of regional governance in the economic and social spheres will be better recognized.

The Russian experience in market reformation shows that the regional level of administration is not quite prepared to a transition to new relations; it is, on the one hand, due to disparities between the existing juridical framework and the financial—economic situation of regions and, on the other hand, to the uncertainty surrounding their place in the established system of governance. It is also the absence of an unbiased information—forecast framework, objectively
Theoretical foundations for the management of a region’s economy have lately been in the middle of attention in Russia. This is seen in all critical areas of social activity. In the system of legislative bodies, the number of adopted normative and other procedural decrees concerning the structures and mechanisms of decision making in processes of regional socioeconomic growth has increased. In the area of executive power, there is a constant reformation of decision-making structures both in the area of personnel and functions up to the absolute liquidation of some power institutions and creation of others, i.e., principally new ones. Public organizations criticize (according to topics most often discussed in mass media) the existing situation and openly polemize with authorities.

Business structures do not accept the current system of taxation, licensing, regulatory mechanism of tariffs on services of natural monopolies, customs policy, and other methods of government participation in economic management. All this leads to the ignorance of the government’s management policies in the form of direct refusal to follow them (shadow economy) or following them partly (tax evasion, undeclared income, etc.).

In the academic and expert community, interest is growing in the investigation of the theory and practice of the decision-making process at the level of federal subjects (regions) and municipalities to search for ways to increase the efficiency and validity of the federal and municipal management (see, for example, [2]). The process of management of the regional economy and the associated economic relations between regional decision-making bodies and companies and organizations, i.e., economic agents of a region, is investigated. The purpose of these studies is to develop theoretical foundations for the management of a region’s economy during a transition to a developed market environment by analyzing the regularities in the formation of the government systems of the regional economy and special features in the growth and transformation of the native economy. For this purpose, the following objectives are stated:

— to study the objective conditions, preconditions, and patterns of governing the socioeconomic processes in a region;
— to justify the methodological principles of governance of the regional economy;
— to study the basic patterns of the interaction mechanism among economic agents in a territory;
— to develop a methodical basis for the concept of socioeconomic governance of a region;
— to develop proposals for the improvement of the forms and methods of management of economic growth and the social area of a region.

The methodical basis for the management of a region’s economy is the theory of regional reproduction worked out by R.I. Shniper [3]. The practical value of the reproduction approach to the governance of a region’s economy is the possibility of a balanced division of the power among different levels of the territorial system, i.e., federal, regional, and municipal. These powers and functions of governance should be determined by a complex of regional reproduction cycles, located on the territory of given level. The criterion for the distribution of socioeconomic functions between different levels of the territorial system is the degree of localization in the use of the results of their governance functions. It is not the scale or quantitative parameters of socioeconomic development but the system of performed functions that should become a distinctive feature of the political unit of a given rank. The approach to this problem in terms of the regional reproduction theory concretizes the responsibility for a certain objective at each level of the regional system.

Thus, the reproduction approach first of all means the adjustment of the development cycles at the level of a region of a given rank. In the generalized form, the governance function performed by regional executive bodies can be presented as the creation of a system effectively using the competitive advantage and resource potential of the region. It is possible to say that the process of governance of a region’s development is the creation of proportions among various elements of the regional system that provide its efficient socioeconomic growth. Different regional units make up the uniform administrative system of the federal state; its units not only differ by the scale and status in the system of federal setup, but by the objectives they are to achieve and by the mechanism of their administration.

The regional management is the governance over region’s functioning and development. A question naturally arises concerning the essence of socioeconomic development governance, because economic
and social processes directly meet here in decision-making results at all levels of governance: federal, regional, and business. The competence of each power level implies the creation of a favorable environment for people’s life activity and the preservation of the natural system and favorable environment for business and other organizations. The socioeconomic functions at all levels of the administrative system ultimately lie in the creation of reproduction, rational use of regional resources, and maintenance of a balance between economic, natural, and social systems.

The creation of a new system of governance of the regional economy should be based on understanding, first, that the regional economic system has a complex structure; second, that the governance of the composite parts of this system needs specific mechanisms; and, third, that such mechanisms should be mutually compatible. Governance at the regional level should be based on a certain system of methodological principles, representing the objective features of the regional reproduction process:

(1) governance by goals. The goal of governance follows from the interests of a particular governance object. If the object is a region, its interests are determined by the interests of its residents (material well-being, culture, education, creative activities, physical state of health, and high quality of life);

(2) use of regional advantages in the territorial division of labor. The system of regional governance should provide the effective use of natural—climatic and socioeconomic advantages of a region in the territorial division of labor and at the same time contribute to the comprehensive growth in the regional economy. This principle represents a dual function of the regional economy: on the one hand, it presents an integral composite of the uniform socioeconomic system of the federal state, has its own specialization, and participates in the development of integration links; on the other hand, it is a relatively independent reproduction system, and the level of its complexity is substantial for the efficiency of its growth;

(3) combination of the interests of all economic agents participating in the regional reproduction process. This principle reflects the presence of own interests by each economic agent and presupposes the existence of objective discrepancies among them. The main requirement for the mechanism of social sustainability governance is the creation of conditions for activity, under which a certain balance among the interests of all structures interacting in this process is achieved;

(4) economic self-reliance, which is not simply treated as absence of direct intervention of the federal state in a region’s affairs, but in a more general sense. The principle of economic independence should imply the equal status of different forms of ownership and economic independence of all proprietors. In addition, economic independence presupposes a clear-cut distribution of powers and functions of governance between different levels of power and the creation of financial and economic conditions for their implementation;

(5) self-financing. A region’s growth should take place in a direction providing for the possibility of covering the expenditure obligations at the expense of income, formed in the territory itself. This is far from total financial self-reliance of regions, but it implies such a scheme of financial flows, in which redistribution processes are not dominating;

(6) the correlation between the efficiency of regional economic growth and the formation of the resource base of the social and general economic development of a region. According to this principle, the economic interests stimulating economic growth and its efficiency should be taken into consideration;

(7) the responsibility for those governance functions that present the essence and content of the governance system at the level of a region of a given rank.

The implementation of the entire system of principles will allow for the creation of premises for the formation of a reliably acting and stable system of governance, providing efficient regional growth consistent with the achievement of objectives and planned measures. All these principles should be laid in the basis of legal and normative acts creating the framework of the governance system of the regional economy and determining the choice of those concrete instruments of the governance mechanism, which determine its efficiency.

In order to ensure the effective development of the regional economy and liquidation of socioeconomic disparities, it is important to detect in advance the situation arising from the confrontation of different interests in order to prevent conflicts and their negative consequences. This is also important for the development of a policy of efficient interaction between regional governing bodies and business in dealing with common problems and for the integration of efforts in order to practically implement the socioeconomic programs of a region. The plurality of interacting economic interests that should be taken into account in the formation of governance mechanisms at the regional level can be reduced to two groups: (1) the interests of business structures concerning the goals of development and functioning of the regional economy; (2) regional interests related to the provision of balanced comprehensive development of the economy and social area and the active participation of a region in interregional interactions, increasing the efficiency of the use of its resource potential.

The economic interests associated with the activity of business structures are regulated by the existing legislation, so the interaction in this field is guaranteed by the system of legal instruments. A different situation arises regarding socioeconomic objectives of a general regional character. This field has no clear-cut norms and rules regulating agents’ interactions that would be
mandatory to all involved organizations. So, in terms of regional governance, it is necessary to consider the interaction between economic interests and related situations based on qualitatively new integrated interests.

The regional reproduction process represents a constant interaction between different structural elements of the regional economy (population, public organizations, business structures, and regional governing bodies), under which each party is guided by its own interests, and these interests do not always coincide with each other. The role of governing bodies of the regional socioeconomic system is to develop a mechanism regulating intrasystemic relations, allowing for the creation of long-term stable financial–economic ties based on some balance of interests.1

For the effective governance of a region’s socioeconomic development, the following conditions are necessary. Regional administrations (government), not interfering in the activity of economically independent firms, should play an integrating role in the formation of the socioeconomic environment of a region, i.e., to control those processes, in which both business and a region’s population take interest and which companies cannot perform separately. Then, the formation of a socioeconomic environment in a region is considered as a process of local reproduction cycles, and the financial–economic base of a region is created on the basis of equivalent production–economic ties between business and the region, which presupposes the direct dependency of economic opportunities of regional governance bodies on the efficiency of the activity of enterprises situated in the territory.

Relations of government and business are to be viewed in terms of their influence on a region’s standing (economic, social, technological, ecological, etc.). In the estimation of regional taxation for business, of importance are aspects, such as the effect made on profit, investments, technology, whereas for regional administration those are opportunities for financial policy, for a choice of instruments for motivating new directions of the region’s economic growth, and a rise in its competitive advantages. The interaction between business and a regional administration can also be based on principles of private–public partnership, and regional taxes should perform the role of an effective instrument for the maintenance of mutually beneficial relations.

The borrowing of foreign experience in governing the regional process (see, for example, [4]) allows us to conclude about the possibility of its application in Russia’s context. On the basis of an analysis of the participation of nongovernmental organizations of business in regional development practiced abroad, it is possible to recommend the creation of similar organizations in Russia both at the regional and interregional level. A number of competencies in the economic interaction between enterprises and regional organizations in socioeconomic trends in a region can be taken on by public organizations, unions, and associations already existing in Russian regions: regional associations and unions of manufacturing enterprises, commercial banks, and organizations of small business. The functions of interregional interaction concerning regional development problems are performed by the interregional association of economic interactions of the federal subjects.

In a system of economic governance methods, an important role is played by the regional marketing strategy. In a market environment, regions and cities are competing in different areas and aspects. In this competition, those regions win that have the strongest competitive positions [5]. As is shown by international experience, one of the critical advantages in a system of competitive positions can be the formation of a favorable business environment on the basis of a system of financial and nonfinancial incentives. Financial incentives are privileged loans, subsidies, loan guarantees, tax privileges, etc. Nonfinancial incentives include simplification of licensing procedures, issue of permissions, business consulting, subsidies for research and design works, provision of land plots for development, etc.

In the creation of a favorable business environment in a region, an important role is played by regional governance bodies and public organizations of entrepreneurs. In accordance with the concept of regional marketing, it is reasonable to create a special noncommercial organization, which will be able to perform the marketing of social and infrastructural services. This organization should represent both the public and private sectors, as well as various social groups. Its founders can be regional governance bodies, manufacturing enterprises, commercial banks, trade organizations, social services, etc. The main task of such an organization is the development of a regional marketing strategy and the implementation of a marketing program oriented to the provision of a high living standard, total employment of the population, restructuring of production, and the development of a market infrastructure. A regional marketing strategy should be developed on the basis of estimating the strengths and weaknesses of a region’s economy with account of its economic and geographical position, the location of manufactures near capacious markets or sources of raw materials, etc.

The basic directions in the new system of a region’s governance are the achievement of publicly important results, improved quality and access to public services,
lower intervention of regional bodies in the economy, lower costs of inefficient purchases for public needs, and higher public trust in regional governance bodies [6]. The final results of the formation of a new system of regional governance should be higher competitiveness of a region’s economy, better investment climate, higher quality of life, better manageability at the regional and municipal levels, higher efficiency of budgetary expenditures, and stronger coordination within the regional community.

The Russian experience in the last decade has visually shown that, to achieve the objectives of regional governance, it is not merely enough to formulate them, supply with a legal framework, and develop a plan of action. In order to achieve significant publicly important results, it is needed to introduce a system of governance by results which connects the objectives, measures, and resources needed for the achievement of the governance objectives. This system uses a mechanism of project management, the application of which allows one to have control not only at the decision-making stage, but also at the implementation stage. The absence of this mechanism considerably impedes the achievement of the outlined results at both regional and municipal levels of government. Its introduction is equally important for the formation of a new system of governmental regulation on the whole and for the solution of many other problems associated with the implementation of structural transformations in the economy. The practical application of the mechanism of project governance should be closely tied with the introduction of a mechanism for the definition of objectives and budgeting by results.

In the budgetary process, the main direction is introduction of budgeting methods oriented to results, a transition to the distribution of budgetary resources between administrators of budgetary resources and their budgetary programs on the basis of their concrete results, and a higher financial independence of agents of budgetary planning on the basis of their stronger financial management.

The transition to this type of budgeting requires an inventory of the expenditure obligations of budgetary planning subjects in coordination with the register of the federal and municipal services and development of technology for their rendering, as well as procedures for calculating the costs of governmental and municipal services. The introduction of standards for governmental services will allow for the coordination and concretization of the obligations of state and municipal governance bodies to regional communities, will require the use of objective procedures for the control and appraisal of their activity, and will lead to lower scarcity of socially important services. These standards should be created for services fixed in the registers of state services of federal subjects, coordinated with requirements for the legislation and register of expenditure obligations of budgets.

Functions without sufficient legal foundations and precluding the exercise of the rights of residents or imposing additional duties on economic agents should be abolished. This will make it possible to reduce the unjustified intervention of the government in the economy, to reduce the transaction costs of subjects of the regional economy, and to concentrate the administration bodies of federal subjects on the problems within the direct circle of their powers.

In order to prevent the appearance of additional functions, it is important to legally fix the procedure of proving the reasons for the introduction of state regulation measures for business activity at the regional and municipal levels. Before the introduction of a new regulating function, it is necessary to motivate that the objective cannot be achieved by market methods and self-regulation, while the summary losses for subjects of the regional economy will be far below the effect. The introduction of a procedure for new measures of state regulation will allow for a reduction in the number of newly introduced additional functions and a decrease in total costs for businesses, thus increasing their competitiveness.

The development of self-regulation mechanisms of socioeconomic development processes in a region will also increase the efficiency of the regulation of activity types. Self-regulatory institutions, such as insurance of responsibility and compensation, can provide a more effective protection of consumer rights than state methods, such as licensing. As a result, it will be possible to develop effective self-regulatory institutions, which will be able to carry on part of functions which are currently fulfilled by state and municipal governance bodies. An issue of regional science that is of high practical importance is the estimation of the efficiency of regional governance bodies. In a planned economy this problem was formulated as the estimation of the efficiency of the regional economy. Two extreme approaches were discussed:

—application of one integral indicator reflects the efficiency of the regional economy. As such an indicator, “national per capita income” was proposed most often. It is quite clear that this indicator depends significantly on the industrial structure of a region and is in no way related to evaluating the efficiency of the activity of regional governance bodies: in oil-extracting regions, it was high, while they had no social services;

—application of many indicators, although the suggested indicators could be contradictory (a high average wage and a low level of social development).

The problem of estimating the efficiency of regional governance bodies under the conditions of increasing differentiation in the level of socioeconomic development among federal subjects and municipal entities becomes ever more actual. In 2009 the procedure “Methods for the Assessment of the Efficiency of the Executive Bodies of Subjects of Russian Federation” was approved [7]. The task of this
procedure is to create the possibility of a balanced appraisal of the efficiency of regional governance bodies and to determine the directions for the correction of their socioeconomic policy.

In accordance with this procedure, in order to determine the efficiency of the activity of regional governance bodies, it is suggested to use 239 indicators. In the area characterizing socioeconomic development, 25 indicators are recommended. They include the “relationship between the number of citizens in the labor market who have increased their qualification or undergone retraining on the basis of state educational institutions of elementary and middle vocational education and the total number of people who were trained in state educational institutions of elementary and middle vocational education” and “share of the population participating in cultural–leisure measures conducted by state (municipal) organizations of culture and in the work of amateur associations.”

Among 17 indicators characterizing the final results of the activity of the executive bodies of federal subjects, the first is the indicator “the relationship of the declared power which was not fulfilled due to a lack of technical possibility of technological connection to objects of the electrical grids, to the general volume of power declared for technological connection to the capacities of the electrical grids in the current year,” “the rate of pay for technological connection to electrical grids at a level of voltage below 35 kV and power less than 10000 kV-A,” “per capita area of land plots leased for construction (net of housing) in the federal subjects.”

The 57 indicators characterizing the activity of executive bodies in the area of health services include the “share of the population involved in physical education and sports activities,” “estimation of the population involvement in physical culture and sports,” and “the number of medical–economic standards used in rendering medical dispensary and ambulance help and stationary medical service.”

It is difficult to say in which way the efficiency of the activity of regional executive bodies in the area of education is characterized by an indicator, such as “the number of copies of books in public libraries per 1000 population” (the more so that very many people, especially young people, read books in an electronic form).

In the area of organization of executive bodies’ activity, indicators, such as “the relationship of monthly nominal wages received by public employees of federal subjects’ executive bodies to the average nominal wage of workers occupied in a region’s economy.” Are there normatives for such relationship? Or let us take an indicator, such as “the number of unitary and governmental enterprises in a subject of the Russian Federation.” Which of the following is better: when there are too many of such organizations or when they are too few?

The Ministry of Regional Development of Russia publishes reports on the appraisal of the efficiency of federal subjects’ executive bodies. Thus, in the statement for 2009 in the section “Economy and State Governance” in a rating of federal subjects, the first place was given to the Republic of Adygea; the third one, to the Chechen Republic.

In general, it is possible to say that these procedures are cumbersome, the system of indicators is overloaded, and many indicators may not be true, but the main issue is that there is an impression that the procedure was developed by people with a very little idea of the object of governance at the regional level.

The development of strategic and planning—forecast documents is a very difficult process, but it is much more difficult if we take into consideration the changes occurring in the competitive environment. So, an obligatory element of the governance process should be the function of monitoring [8] based on a system of indicators allowing for a quantitative appraisal of the effectiveness of socioeconomic development and the level of achievement of the outlined objectives and solutions to problems. A system of goal indicators should meet the following requirements:

—It must be not cumbersome, and the number of earmarked indicators should be infinite.

—It should adequately represent the outlined tasks.

—It should not include accidental indicators only because of their presence in statistics.

—With increasing time into the future, the number of indicators should decrease.

—As integral indicators allowing for the estimation of the achievement of an objective, dynamics of the population and attracted investment in a certain territory should be used.

—There should be a possibility to use one or a few partial indicators to evaluate the level of fulfillment of each outlined task, including the efficiency of the activity of regional executive bodies.

Proceeding from these requirements, a system of indicators for the evaluation of the efficiency of regional executive bodies should consist of the following:

(a) integral indicators characterizing the economic development of a territory—the dynamics of the population and attracted investment in municipal unit;

(b) indicators characterizing social development: average wage, per capita money income, per capita provision of housing, per capita retail turnover, and the percentage of the population with subsidies and allowances;

(c) indicators characterizing the infrastructural development of territories: road construction, share of paved roads, provision by power objects, etc.;

(d) indicators characterizing the differentiation of spatial socioeconomic development (disparities in basic per capita income indicators).
A realistic estimation of all undertaken measures for the perfection of regional governance and the available proposals, characterizing the general concept of economic reformation at the regional level, allow for the following conclusions.

First, the basic elements of the socioeconomic systems of regions are not equally prepared to a transition to a new model of regional governance.

Second, the powers of official bodies of the hierarchical system of territorial governance are not clearly defined.

Third, the economic, social, and financial norms, which should perform the functions of financial-economic instruments, providing the achievement of objectives and tasks of integrated socioeconomic development, are not justified.

Fourth, in some governmental links of a region’s economy, there is a lack of worldview susceptibility and personnel preparedness to a transition to a new model of regional governance.

From this it follows that a transition to a new model of economy governance of a federal subject should be of a stepwise character and implies the constant replacement of ineffective elements of the economic mechanism. At the first stage, it is necessary to provide the following tasks:

— proceed from the priorities of a region’s socioeconomic development to motivate authorities, concrete prerogatives, and duties and functions of regional government bodies and local self-government;
— to develop a system of regional planning—forecast and normative documents, providing a high level of reliability and quality of governance;
— to establish order in the organizational structure of the government in accordance with its tasks, to increase the efficiency of governance by simplifying the government structure, abolish the multilink system, and exclude irrational costs;
— to establish scientifically motivated regulating bodies providing mutual economic interest in the activity of local government bodies and business structures located in a territory;
— to form a necessary information base of regional and municipal statistics which would make it possible to investigate the regional financial and economic proportions of reproduction and the instrument of action in order to change them in the necessary direction;
— to create the necessary infrastructure for a transition to updated methods of governance with a wide application of new information technologies.

On the basis of this new regional governance model, the following will become possible:

- to make decisions which can be really fulfilled in terms of the availability of adequate financial and economic possibilities in a region;
- to arouse the interest of business structures located in a region in solving the general regional objective to increase the competitive positions of the region and its financial and economic potential, without using administrative actions but instead creating conditions for business which would provide economic feasibility and profitability from participation in the solution of regional problems;
- to concentrate activity on the development of promising economic clusters and on solving interindustrial boundary problems that are important for each particular production facility located in the territory of a region but can only be solved on the basis of interindustry interaction.

The strategy of a federal subject should be the one that provides a common platform, which is called to provide the mutually profitable development of business and the territory in the interests of the region’s population.

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