

# DEVELOPMENT STRATEGY

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## Strategic regulation of structural transformations in the economy of the single-industry town



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**Abstract.** The article considers the problems of strategic regulation of the structural transformations processes in the single-industry towns' economy. The author substantiates the view that its future economic development directly depends on the activity of the town-forming enterprise and presents the algorithm of restructuring program formation. The contents of the main algorithm blocks (stages) are studied in detail. According to the author, the fundamental point in the proposed algorithm is to evaluate the features of the town-forming enterprise in ensuring the implementation of the social objectives of town development. This issue is in focus. The author indicates the necessity to develop the enterprise restructuring program and single out the best option to diversify the town's profile economic structure. In this regard, the article suggests the schematic diagram of the choice and objectives of effective diversification option. According to the author, the options generation procedure for the diversification profile structure of single-industry towns' economy should base on the strategic analysis of the town's economic capacity to identify the competitive advantages of single-industry towns and possible barriers to diversification processes. The author notes that the options implementation will require various types of resources and first of all, investment, labor, energy and land ones. The article provides detailed recommendations on this issue.

**Key words:** Strategic regulation, single-industry town, restructuring, goal setting, improving the population life quality, the profile structure diversification of the single-industry towns' economy.

The results of promising economic development of a single-industry town will critically depend on the activity of the town-forming enterprise (or several enterprises, conducting their production activities within a single production cycle).

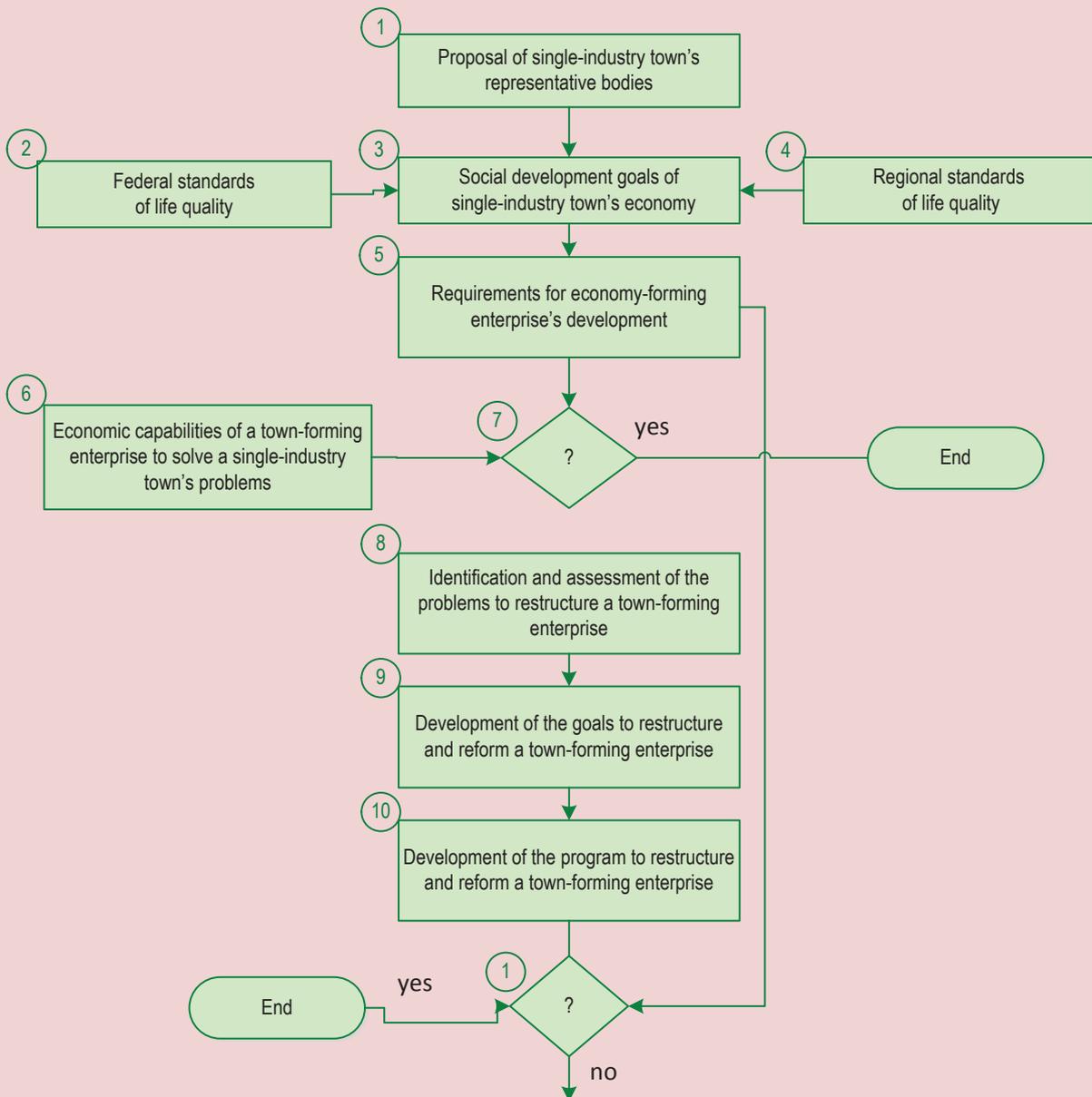
The most important principle of a single-industry town's economic development is to ensure the changes' social orientation in the economic sphere, which directly follows from the constitutional provisions to build a social state in Russia.

So, the initial stage of the research, defining the prospects of a single-industry town's economic development, is connected with estimation of the town-forming enterprise's abilities to ensure the implementation of social objectives of the town development (fig. 1).

The goal setting, as a key feature of scientific organized management, has not been in focus in the process of strategic

management of Russian cities' economic development, including single-industry towns. The reasons are commonly seen in the weakness of the current management; however, the roots of this situation have an ideological character to a certain extent. So, the famous German philosopher and sociologist K. Mannheim said: "Unlike the bourgeois researchers, paying special attention to the objectives definition, K. Marx... refused

Figure 1. Development of the program to restructure a town-forming enterprise of a single-industry town



the precise definition of the objective that can be separated from the process” [5]. To substantiate this point of view, he referred to K. Marx’ statement, principled for consideration of the goal setting process: “Communism for us is not a state to be achieved, not an ideal for the reality to conform. We call the process, which destroys the present state, as communism” [6].

Meanwhile, modern philosophy states that the objective is an ideal reflection of social life and its laws [8]. Cybernetics considers the goal as a certain state for a particular object to strive for; with this state being quite a definite object existence form, implemented in a specific time [2]. So, we can see that K. Marx, having a powerful impact on the formation and development of socialism, was, in fact, a goal setting opponent of principle; our economic practices still experience the consequences.

In a complex qualitative and quantitative certainty, which is a goal of urban development, target indicators serve to express target setting [11]. However, in the target concept system the goal setting acts as an element, which indicates the level of scientific knowledge and notion about the object at the time of goal setting; it is the goal basis and it defines the nature of quantitative dependence and their dynamics. Unlike targets setting, the target indicators can vary when the time period of the goal achievement decreases (increases), depending on the changes of external conditions and prerequisites for the development of a goal setting object. Then, the goal of single-industry town’s economic development can be generally interpreted as its future state characteristics for a considered prospective.

Now let us return to the issue of setting strategic goals to improve the life quality of single-industry town’s population, acting as a kind of “tonometer” “that provides “adjustment” to achieve the whole economic system of the town (Block 3 of the functional diagram, fig. 1). In this regard, one can conditionally

single out two main generators to set strategic goals of a single-industry town’s social development.

One generator is “inside” the town: it is the representative bodies’ proposals to enhance the citizens’ life quality for a considered prospective (Block 1 of the functional diagram); another is outside the town: it is the federal and regional governance structures’ minimum obligations to the population (Blocks 2 and 4, respectively).

Currently, there is not a generally accepted system of legitimate state grants, ensuring minimum social standards, but this does not mean that they do not exist at all. Various legal documents, adopted at the federal and regional levels, stipulate such standards; however, they do not make a complete system. The literature describes the difficulties, associated with scientific definition of minimum state social standards of the population’s life quality; although the key problem here is the lack of political will to address this problem. After all, the decision to develop such minimum state social standards was adopted in 1996 and the draft document was developed [7]. Further suspension, in our opinion, is caused due to the unclear role of state and municipal bodies in the decision of problems of provision of minimum social guarantees to the population.

Block 5 identifies new (increased) requirements for the development of town-forming enterprises’ economy, defined as the difference between the current and forecasted indicators of urban social development in the monetary form. Within Block 7 these requirements are compared to the economic capacities of a town-forming enterprise to encourage social development of a single-industry town (developing required profitable part of the city balance of financial resources, ensuring employment of economically active population, solving environmental problems, arising from the town-forming enterprise’s activities and so on), formed in Block 6 of the functional diagram (fig. 1).

If the comparison reveals the enterprise's ability to correspond to forecasted requirements, the forecast-analytical work is terminated; otherwise there is a shift towards Block 8, which stipulates the identification and assessment of problems to restructure and reform a town-forming enterprise.

We consider the problems to restructure and reform the enterprise's economy as an obstacle to achieve the goals of social economic development of a single-industry town. Each goal is recommended to have the following data:

- detailed descriptions of the problem, a problem statement;
- assessment of the unresolved issues' negative impact on the implementation of the objectives of single-industry town's social economic development; such impact is recommended to be characterized by means of indicators. Their change shows the problem aggravation degree in time;
- characteristics of the problem complexity, involving, for example, the necessity to develop appropriate legal support, to carry out research, design and construction works and to retrain the staff, etc.

To develop the target setting as a basis for the strategic objectives to restructure and reform a town-forming enterprise, it is necessary make grouping, synthesis and ranking.

The essence of the identified problems grouping is their differentiation by the indicators (technological, organizational, problems of management mechanism enhancement, innovation problems and so on); by the types of necessary resources (human, financial, investment, information and so on) and by other grounds.

The synthesis essence is to identify recurring or close problems, to single out common problems, essential to meet the goals of single-industry town's social development. The synthesis results are used to rank the problems

by their importance, determined by the impact on the implementation of the planned social objectives of single-industry town's economic development.

The strategic target setting of single-industry town's economic development stem from the identified problems' essence, that is why blocks 9 and 10 of the functional diagram reveal the development goals to restructure and reform a town-forming enterprise and the creation of an appropriate program.

Realization of full potential of town-forming enterprise's development is possible only when financial situation is stable. To achieve it, most enterprises require restructuring, including organizational and industrial structures, facilities, property and occupied land in accordance with the product demand, as well as upgrade of the financial management system [3]. This involves changes in the organizational and industrial structures, assets, debts, the structure and quality of the staff, etc. in order to boost the enterprise's efficiency.

At the same time, the town-forming enterprise's restructuring is only one of the possible tools to improve its functioning efficiency. It presupposes optimization of the enterprise's structure and production capacity, leading to increased competitiveness of the manufactured products. The investment attractiveness increases with the financial balance improvement. It is the basis for the mechanism of financial resources attraction to industrial enterprise's development. Then there forms the enterprise management system, adequate to the current political-economic conditions, and organizes the work to improve the staff's skills and resources allocation (energy, labor, land and so on).

Restructuring of a town-forming enterprise should comply with the following basic requirements:

- preservation of the existing scientific, technology, production and staff potential;

- increase in real income into the town budget;
- maximum possible preservation (with the tendency to increase) of job places;
- when making managerial decisions to restructure and then reform the enterprise, one should seek economic interests compliance of all stakeholders – owners, managers, employees, power bodies, population, potential investors, etc.;
- substantiation of the state support system to restructure and then reform the economy of a town-forming enterprise in order to prevent mass unemployment and growing social tension.

The latter case presupposes permission to lay-up the property, not used in the production process, thus there is no need to pay property tax, rental fee (or land tax) for unused land, etc.

Block 11 of the fundamental diagram compares the requirements to develop the town-forming enterprise' economy (Block 5) with the software results of its restructuring and reform. If the comparison results meet the requirements of the enterprise's economic development, then the social objectives of single-industry town's economic development can be implemented. Otherwise, one has to develop the proposals for economic diversification of the town.

Nowadays the restructuring and subsequent reform of the enterprise does not often solve the problem of its successful development in the strategic perspective completely. As a rule, the reason for it is not only the lack of the enterprise's allocations into the city budget (more precisely, into the city balance of financial resources, which revenue part takes into account financial resources of budgets of different levels and funds of investors), but mainly the employment problems of economically active urban population, since the unemployment rate in the Russian single-industry towns today is about 6 times higher

than the national average. That is why the creation of job places for economically active population is considered to be one of the main requirements to diversify the profile of the town's economy.

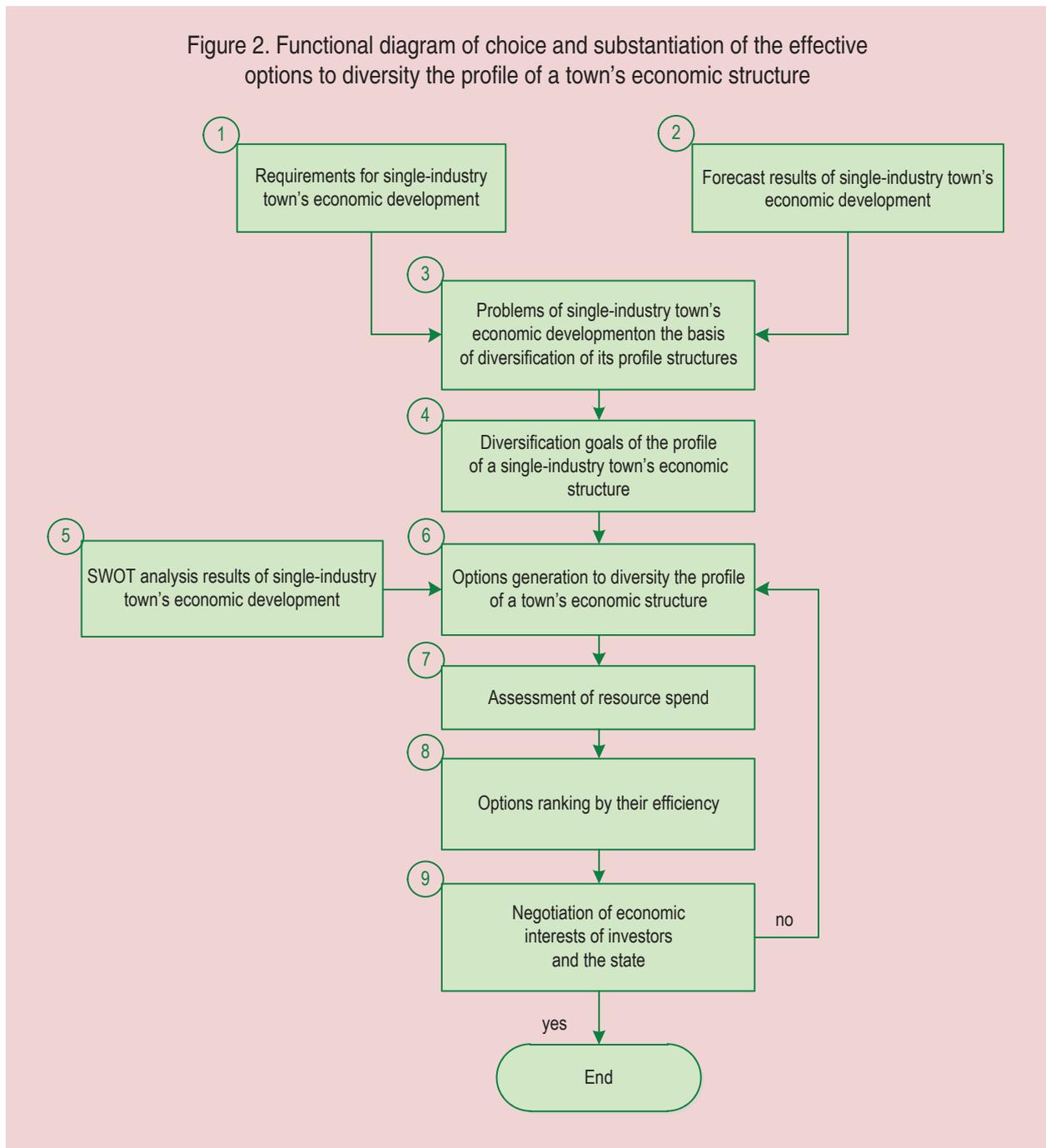
However, it is necessary to indicate the demand in job places, connected with the implementation of high-tech projects, due to the requirements of mostly innovative and effective economic development of a single-industry town in the long term. Therefore, the processes to single out and substantiate the diversification options are closely related to the works on their investment maintenance. What is more, the social orientation of single-industry town's economic development requires the city community's engagement into conciliation, as the restructuring measures can affect different layers of urban population [9].

Now let us consider the essence of the proposed concept to single out and substantiate the effective option of diversifying the profile of a town's economic structure (*fig. 2*). Blocks 1 and 2 reveal the requirements for single-industry town's economic development, arising from the adopted strategic social objectives of the city development, and the forecast results of town-forming enterprise's development, respectively. As for a functional diagram in Figure 1, it is referred to the procedures, implemented in blocks 5 and 12.

Then Block 3 of the considered functional diagram identifies the problems of single-industry town's economic development, their solution is associated with diversification of its specialized structures. To set targets, the already mentioned methods of grouping, synthesis and ranking are used; then in Block 4 the diversification objectives of a town's economic structure are defined in the strategic perspective.

Block 6 of the functional diagram describes the procedure of options generation to diversity the profile of a town's economic structure. It

Figure 2. Functional diagram of choice and substantiation of the effective options to diversify the profile of a town's economic structure



is, in fact, substantiation of a new strategic choice [4], which consists in a shift from a single-industry economic structure, due to the economic entities' inclusion (branches, activities types) into the structure. They are really (potentially) capable of:

- making stable increasing contribution to the city budget;
- increasing the number of job places;

- stimulating positive transformation of a town's economic structure due to the emergence and development of new items;

- improving a city's image, boosting its investment attractiveness and expanding the range of investment sources, financing diversification projects of the town's economy;
- obtaining new markets for manufactured products.

The procedure of options generation to diversify the profile of a town's economic structure is based, in particular, on the results of the strategic analysis of the town's economic potential [12], which gives the opportunity to identify competitive advantages and potential barriers to economic diversification (Block 5). Moreover, taking into account the possible state support to realize diversification projects, it is recommended to consider the strategic priorities of economic development, disclosed in the relevant documents of federal and regional level.

The options to diversify the profile of the economic structure can be generated differently. The way "from below" involves the initiative of the municipal government, population and local business community, the way "from above" – the initiative of the state, federal and regional governance structures. Nowadays the second option clearly prevails, although, in our opinion, the leading role here should belong to the local authorities, because they know competitive advantages of a single-industry town, possible obstacles to the implementation of one or another direction of diversification, and finally, they bear full responsibility for economic and social development, in accordance with the current legislation.

It is evident that the implementation of the proposed options to diversify the profile of a single-industry town's economic structure will require different types of resources, such investment, labor, energy, land resources. Block 7 of the fundamental diagram determines the required resource spend (by types).

The most important condition for successful realization of the planned options is investment provision. Therefore, the authors' constructive proposal [1] presupposes combining stages to initiate the options with the issues of their investment provision, potential investors' attraction to the project at an early stage.

To do this, it is necessary to single out the main groups of investors who can be interested in implementing the projects, related to economic restructuring of a single-industry town. As the projects are long-term and risky, it is necessary to attract, particularly, strategic investors, who do not count on a short payback period. State and municipal bodies that use the funds of budgets of different levels can be such investors.

It would be better when potential investors have already participated in the generation processes of the options to diversify the profile of a single-industry town's economic structure, discussing the terms of their possible participation in the transformation of an economic structure profile. This requires that a single-industry town is active at the investment market and informs potential investors about its readiness for a constructive dialogue, regarding their participation in the planned diversification projects.

In modern conditions the value of staffing increases significantly when solving diversification problems; the city's emerging economy requires personnel with creative thinking, able not only to meet the established regulations and to pattern after the previously created technological and management innovations, but to create new innovation-based regulations, providing effective development of the city's economy. Therefore, when estimating the resource support to implement initiated diversification options, it is necessary to identify the urban economy's requirement in personnel, sources of their coverage and to provide the economically active population with professional retraining programs, etc.

Among the resources provision factors of diversification of the profile of a single-industry town's economic structure, the availability of free land and energy resources are of great importance. It seems clear that

the energy security factor can act as a catalyst and a significant limitation while initiating the projects of structural adjustment of the profile of a single-industry town's economic structure.

The factor, associated with the presence of free land plots for economic development, is also increasing its role by the following reasons. Firstly, the available land resources are necessary for new manufactures construction in the framework of diversification projects. Secondly, housing and utilities complexes of Russian single-industry towns are often deteriorated. Thus the system of measures to diversify the city's economy should envisage construction of new housing, water supply and sewerage services, etc. that requires significant land plots.

Block 8 of the fundamental diagram ranks the initiated options to diversify the profile of a single-industry town's economic structure according to their designed economic efficiency.

Block 9 stipulates the negotiation of diversification options implementation with the key stakeholders, who have interest in its strategic economic development, such as municipal and state authorities, investors, business communities, set up by the public, and representatives of the independent expert community. The object for discussion can be, for example, the municipal government's capabilities to create conditions for effective work of potential investors and state support of project proposals, etc. If the main actors in the negotiation come to agreement or reveal similarity of interests, then the process of choosing the option(s) to diversify the profile of a single-industry town's economic structure is completed, otherwise, they have to return to Block 6 of the fundamental diagram.

Practical implementation of the project proposals in the sphere of structural reorganization of a single-industry town's economy involves the creation and ensuring of effective functioning of their implementation mechanism. However, there are different approaches to define the essence of this mechanism: ensuring the transfer of the city's economy into a qualitatively new state due to achievement of strategic development objectives; stakeholders' purposeful influence on all economic entities in the city in order to achieve regional development goals [10] and so on. We believe that the interpretations diversity is caused by the basic fact that the idea of this mechanism depends on the degree of its knowledge, and, therefore, we try to determine the essence, structure and purpose of such a mechanism, principles of its formation.

In our opinion, the mechanism of the project proposal implementation to restructure a single-industry town's economy is the following: in order to achieve the goal, municipal bodies together with government authorities and other stakeholders influence structural economic change. The mechanism purpose is to provide transition of a single-industry town's economic structure into a qualitatively new state, characterized by achievement of the adopted strategic social goals of its development.

The composition of the given mechanism is controversial. We believe that as a complex system it includes: scientific principles of its development; program documents that implement the proposals to restructure and reform a single-industry town's economic structure and to diversify the profile of the economic structure; documents on their implementation.

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