

**ISCKMC 2020****International Scientific Congress «KNOWLEDGE, MAN AND CIVILIZATION»****REGIONAL AUDIT AS A BASIS OF THE STRATEGY FOR  
REGIONAL BUSINESS DEVELOPMENT**

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**Abstract**

The article deals with the tools for conducting socio-economic audit as a basis for developing and monitoring the strategy of regional development. The main factors necessary for creating and maintaining effective groups of companies and a competitive regional economy have been outlined. They include qualified and adaptable human resources, competitive tax and legislative systems, perfect material infrastructure, high living standards of population, affordable technologies, and investment capital. Conducting an audit of the region and preparing a strategy for its development requires collecting data on the current socio-economic situation and determining the priorities of representatives of the following groups of society: authorities; entrepreneurs; employers; employees; local population; local non-profit organizations. To assess the situation in a region, it is necessary to analyze the structure of the regional economy from the viewpoint of the ratio of large, medium and small businesses and determine the vector of the structure's improvement towards the optimal number of small and medium-sized enterprises in various fields of activity. A successful regional development strategy should be based on partnership with stakeholders and division of functions between them. The following principles of regional development strategy have been outlined: focus on infrastructure support; synergetic effect; creation of economic foundations of a region; integrated approach to providing support for groups of companies; consideration of business structures' demands.

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## 1. Introduction

The policy of economic development of the regions has developed significantly over the past decade. However, policy-makers start realizing that targeting traditional industries is not as effective as expected. The new economic realities are caused by intensified national and global competition, particularly with China, and rapid changes in communication technology and systems (Antonescu, 2014; Bondarenko & Kundryukov, 2017; Sinyuk et al., 2019). These new factors have created an interdependent system of global production, trade, and finance.

Survival in the context of universal competition means that companies have become more reliant on both advanced technologies and a number of human factors, such as creativity, intelligence and adaptability. Success in production is ensured through specialization, increased production rates, flexibility and product quality assurance. Therefore, to maintain their competitiveness at the appropriate level, regional companies and business structures need an economic situation that would be characterized by the presence of a perfect infrastructure, especially highly developed digital technologies and logistics systems, highly qualified and easily adaptable to the requirements of the labor market staff, and a favorable economic climate (Bondarenko & Kundryukov, 2017; Genç et al., 2018).

Preparation of a strategic plan for regional economic development should consist in conducting a social and economic audit of the territory, where the development strategy is focused. Strategic audit of socio-economic development of the region is understood as an assessment of the compliance of resource indicators with the opportunities to achieve long-term goals set by region's authorities, and with the expected consequences. The terms 'analysis', 'diagnostics', 'assessment', 'monitoring' are more often applied to the study of the situation in the region as compared to 'audit' (Nikolaeva, 2016). In the context of the ongoing study of the mechanism for creating a regional socio-economic development program, these terms can be considered as synonymous. The term 'socio-economic audit' emphasizes the independence, completeness and correctness of the assessment.

Besides, given that the scale of economic development goes far beyond the capabilities and resources of the public sector, the only way to achieve it is to increase the efficiency of using all available resources and create new types of associations for various types of commercial and non-profit organizations (Ismial & Shukur, 2016; Klimanov et al., 2017).

The emergence of a public-private form of partnership ensures four areas of economic development: strategic planning, research, policy development, and audit of existing programs and activities of regional agencies.

The global competition has prompted some regions to go beyond their borders in the process of uniting for economic development. They are looking for new types of integration of entire regions, as an opportunity to get the advantages of large economic entities. The Southern Federal District (SFD) is one of the examples of such regional association. The SFD regions cooperate in the areas of mutual interest, particularly in communication services and tourism.

## **2. Problem Statement**

The research conducted by Russian and foreign economists has shown that there is a tendency to combine different industries into economic groups with the aim to link producers, suppliers, investors and researchers. The Russian aircraft company Rostvertol JSC of the aviation holding Helicopters of Russia may serve as a typical example of such regional groups. Like most groups, it consists of three "layers". The core of this group is represented by such a leading helicopter manufacturer as Rostvertol JSC. The second layer consists of many service companies that provide raw materials, specialized services, investment capital, and conduct research. The third layer consists of such essential economic fundamentals as perfect infrastructure, specialized training of staff, R&D, and the pooling of risk capital available in the region. Economic fundamentals are represented with the clusters of effective groups and a competitive economy (Klimanov et al., 2017; Kourtit et al., 2017; Seliverstov, 2018).

Effective groups provide significant advantages to their business structures of different scales of activity in the form of smoothing local competition, improving interaction between companies, as well as providing advantages of large economic objects for buyers and suppliers. There are six basic directions that are necessary for creating and maintaining effective groups of companies and a competitive economy. They include qualified and adaptable human resources; competitive tax and legislative systems; perfect material infrastructure; high living standards; affordable technologies; and investment capital. The audit of socio-economic development of the region in these spheres makes it possible to determine state of the base for implementation of the territorial strategy.

## **3. Research Questions**

The research object is represented with a region as a system and an element of the national economy. A region may coincide with the borders of a constituent entity of the Russian Federation or combine the territories of several entities (Sinyuk et al., 2019). The research subject is defined as the choice of areas for developing a regional development strategy based on socio-economic audit. The task seems to be hard since it is necessary to take into account the impact of various trends on the regional development, the type and levels of trends that establish a system of indicators for monitoring regional development as a system.

## **4. Purpose of the Study**

The research purpose is to determine the areas and tools for creating and adjusting the development strategy, taking into account the results of socio-economic audit.

## **5. Research Methods**

The research methods include literature review, analysis of legal acts, and comparative analysis. The review of theoretical and methodological aspects and concepts of developing a regional development strategy allows outlining the program-target approach as a priority one. According to this approach, the

regional development strategy is a hierarchical set of national, regional, and municipal program documents, based on key indicators of achieving strategic goals in the short, medium and long term.

The empirical base of the research consists of legislative and regulatory acts, statistical data, Russian and foreign research works on creation and adjustment of regional development strategies.

## 6. Findings

The disadvantage inherent in many recent programs of socio-economic development of regions consists in the incorrect identification of target indicators and analysis of the program's implementation in accordance with these targets. Over the recent years, the programs have been formed under the system of comparative evaluation of measurable goals-parameters for assessing the quality of life and the economy. For example, when developing a strategy for the development of the Rostov region until 2030, at the highest level the goal-setting system is represented by five indicators that summarize the results of implementing the strategy as a whole: population growth, gross regional product, investment in fixed assets, life expectancy at birth, and average per capita income.

The source data for comparative evaluation focus on measurable results (i.e. changes in average per capita income) rather than on the efforts made (i.e. amount of money spent on vocational education and social support programs). Their goal is to point the region's authorities to the right direction when developing programs and, at the same time, maintain responsibility for their work.

Conducting an audit of the region and preparing a strategy for its development requires collecting data on the current socio-economic situation and determining the priorities of groups of people making decisions. They may accept, ignore or reject ideas. Priorities of representatives of the following groups of society should be taken into consideration: federal/regional/local authorities; entrepreneurs; employers; employees; local population; local non-profit organizations.

To determine the expert opinion of these population groups on the priorities in socio-economic development, the following questions may be asked: "What are your ideas concerning the strategic plan? Are these issues included in the regional audit? What ideas would you reject? Do you have enough power/resources to prevent certain points of the strategy from being implemented? What individuals, companies, and organizations can play a supportive and active role in preparing and implementing the strategic plan? What individuals, companies, organizations can be opponents?".

Such expert surveys of representatives of different groups of the local community will help not only to correctly identify growth indicators, but also to formulate indicators for assessing the situation based on the regional audit.

It is important that the audit of a region includes information about all current and expected activities, so that there is no duplication of actions, and that all current activities and plans are included in the strategic plan for regional development. Therefore, when conducting the regional audit, the following aspects should be considered:

- current and planned activities at the federal/regional/local levels;
- potential partnership (public-private partnerships, enterprise alliances);
- available investment funds (banks, government and local initiatives, private funds).

It should be remembered that the regional development strategy will be more successful if it is built on the basis of partnership with stakeholders and a rational division of labor between them. Possible partners and division of functions for implementing the regional development strategy are listed below.

1. The regional government determines priorities and tasks; collects the necessary resources and means of support for the development of local business structures; creates material, economic, legal and executive infrastructure including economic development; helps overcome obstacles at the federal level in favor of regional business, etc.

2. Financial infrastructure in the form of banks operating in the region, investment and guarantee funds, microfinance organizations, creates a financial base for implementation of made decisions.

3. The business community represented by entrepreneurs and managers can become an important partner, as it will influence the environment, in which the strategic development plan is implemented.

4. The strategy will require participation of educational and research institutions: schools, technical schools, colleges, universities, institutions of further education, research organizations, etc.

5. Public partners (public organizations, trade unions, socially-oriented non-profit organizations). They will be the main partners in the process of creating new forms of employment.

6. Consultants (local and external) can be an important link, bringing fresh, independent ideas and their own experience. They are more critical because they are not linked to a particular region. As a result, their opinion can be highly influential.

7. Mass media is also a very important partner, since regular coverage of activities and advances of the strategic plan will be necessary to mobilize support for regional business community and population.

Social and economic audit of the region requires a clear division of labor, i.e. the division of responsibilities for the preparation of each stage of the audit. The regional government takes the lead at this stage and appoints people in the administrative services, who will be responsible for preparing detailed information, as well as agrees on the completion date.

In the course of the audit, it is advisable to analyze the structure of the regional economy from the perspective of the ratio of large, medium and small business structures. The following options are possible.

1. *Narrow production base* uniting a few large enterprises. This represents a potential threat to the regional economy, since a reduction in one sector will cause widespread unemployment that the city/district cannot cope with. It is necessary to take measures to reduce dependence on large enterprises and expand the production base.

2. *Wide production base*, represented mainly by large enterprises. This economic structure is less dangerous than the first option, but it is also necessary to reduce dependence on large enterprises.

3. *Narrow production base*, consisting mainly of small and medium companies is also problematic. If most small and medium-sized enterprises are interconnected as suppliers or distributors for large companies, or if they operate within one or two sectors of the region's economy, the city/district may also face the decline of one enterprise or one sector.

4. *Wide production base*, represented by small, medium and large enterprises is the optimal profile. The strategy will focus on developing the widest possible range of different economic sectors in

the region. This will provide the city/district with more opportunities to cope with the decline of various sectors of the economy or companies.

The results of this research allow determining the vector of improving the structure of the regional economy in the direction of the optimal number and ratio of large, medium and small enterprises in different fields of activity.

Based on the audit of the region and the experience of developing and implementing regional development strategies, the following principles of economic development can be formulated:

**Principle 1: Focus on infrastructure support**

The key to the region's economic viability is a dynamic, innovative, market-oriented business sector. The state plays a major role in supporting entrepreneurship by creating physical infrastructure, funding research, training, and a number of other infrastructure programs.

**Principle 2: Synergetic effect**

When we talk about economic development efforts, we tend to talk about special programs: incubators, research parks, loans to small businesses. But these programs have little impact until they are combined with other initiatives undertaken by the state and non-state sectors in the field of economic development in such a way that integration and synergy in the economy are possible. The types of activities envisaged by individual programmes are less important than the process of their implementation, relation to the overall strategy, and the way of their parts' compliance.

**Principle 3: Creation of the region's economic fundamentals**

Economic fundamentals (qualified human resources, affordable technologies, available capital, perfect material infrastructure, competitive tax and legislative systems, high standards of living) are the building blocks for a competitive economy. Therefore, regional authorities should focus on them in regional development programs.

**Principle 4: Comprehensive support for groups of companies**

Most economic development programs provide services to individual companies, but sustainable economic development is possible if there are industry groups, not individual companies. Therefore, it is necessary to develop a comprehensive strategy that will meet the needs of entire industry groups.

**Principle 5: Consideration of business entities' requests**

A policy of effective economic development should be based on the realities of the industries it targets. The task of authorities is to let industry groups play a major role in the development of both special programs and the economic strategy of the region. The main task is to set benchmarks, evaluate the results of the program and focus funding on the most profitable areas.

## **7. Conclusion**

The main results of the research relate to the formation of tools, determining the directions, forms of conducting and organizing socio-economic audit of the region aimed at development and adjustment of regional development strategies. The main factors necessary for creating and maintaining effective groups of companies and a competitive regional economy have been outlined. They include qualified and adaptable human resources, competitive tax and legislative systems, perfect material infrastructure, high living standards of population, affordable technologies, and investment capital. Expert surveys should be

used in the course of the audit to identify priorities of various stakeholders: regional government; representatives of financial infrastructure and business community; educational and research institutions; public organizations; mass media; and business consultants. These same stakeholders can and should participate in the development and adjustment of the regional development strategy within their competence.

Analysis of the structure of the regional economy from the perspective of the ratio of large, medium and small business structures shows that the best option is the presence of enterprises of different scales and spheres of activity (Mishurova, 2012).

The formulated principles determine a new approach to the implementation of regional economic development, which is driven by the needs of the business sector; it is aimed at creating and regulating resources and is based on the development of baseline data for evaluating the programs' results.

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